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**ARIZONA CORPORATION COMMISSION**

July 15, 2005

Gale Garriott, Director  
Arizona Department of Revenue  
1600 W. Monroe  
Phoenix, Arizona 85007

W-01646A-03-0601  
W-01868A-03-0601  
W-02235A-03-0601  
W-02230A-03-0601  
W-01629A-03-0601  
W-02240A-03-0601  
W-02316A-03-0601

***VIA FACSIMILE***

Dear Mr. Garriott:

We talked over the phone late last week about the water crisis being experienced in Sierra Vista and Hereford, Arizona. Thank you for your willingness to look into this very important issue.

The water system as a whole is called the Johnny McLain Systems. Seven separate legal entities make up the system:

- 1) Cochise Water Company
- 2) Coronado Estates Water Company
- 3) Crystal Water Company
- 4) Horseshoe Ranch Water Company
- 5) Miracle Valley Water Company
- 6) Mustang Water Company
- 7) Sierra Sunset Water Company

I have attached the Arizona Corporation Commission's Decision, No. 66241, to provide you with a complete history of the companies and their relation with the state. I will not go into that detail in this letter.

Since the date of that decision, Johnny McLain declared bankruptcy (see the top of page 5 of the order). That action forced all seven companies into bankruptcy as well.

At this time we are working to facilitate the sale of the seven water companies to resolve significant problems related to:

- 1) Water outages (sometimes for days at a time).
- 2) Lack of adequate pressure for normal household uses.
- 3) Security of the water system (fences and locks are breached).

Gale Garriott  
RE: McLain Water Companies  
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I would characterize these seven companies are the most problematic water companies currently operating in Arizona. The solution to these problems is an estimated \$1,000,000 in repair, renovation and in many cases, complete replacement of the infrastructure. That can only be accomplished by an owner who has sufficient skill, resources and capital.

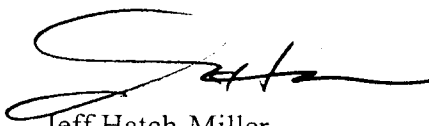
A major barrier for a successful sale of the companies is that the outstanding taxes are estimated to be much more than the value of the combined companies. Johnny McLain and the system owe approximately \$1,000,000 in taxes, fees and penalties to the State of Arizona and Cochise County. As long as the taxes remain at these levels, it is unlikely that a new owner will be found.

Governor Napolitano, this week, directed \$12,500 to these seven water companies for emergency repairs. Cochise County, this week, directed \$9999.99 for emergency trucking of water those who are suffering outages. The American Red Cross has set up "cooling stations" where water customers can go (the home evaporative cooling systems do not work except when adequate water and press is available).

I am hoping that the State of Arizona can work with the Bankruptcy Court to make some adjustment in the amount owned in taxes so that the likelihood of finding a willing buyer will be greatly enhanced and, through the sale, the water system problems resolved.

Thank you for thanking your personal time to review this matter and, hopefully, to work with those of us at the Commission, ADEQ, WIFA, DWR and the Governor's office to put this crisis behind us.

Sincerely,

A handwritten signature in black ink, appearing to read "Jeff Hatch-Miller", with a stylized flourish at the end.

Jeff Hatch-Miller  
Chairman

Enclosure

Cc: Commissioner William Mundell  
Commissioner Marc Spitzer  
Commissioner Mike Gleason  
Commissioner Kristin Mayes  
Brian McNeil  
Ernest Johnson  
Steve Olea  
Service List